It has not seemed to me that Professor Seligman's logic was conclusive, or that he was thoroughly conversant with the problems of the colleges, at least not with those of the small ones. The colleges have changed much in the last few years; have to some extent become social forces; and are bringing their work into more direct relation with life. For them, the seminar will prove a successful method of instruction in that it will permit individual treatment and thus enable the teacher to develop whatever possibilities for constructive work a student may possess.

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THE STATE RATE CASES

Probably the most far-reaching decisions relative to the railroad situation that have been rendered during the past two years were handed down on June 9 and June 16 by the Supreme Court of the United States in the so-called "state rate cases." In a general way, the substance of the decisions is to the effect that while Congress has power to regulate rates within a state in so far as these railroad charges constitute an essential part of interstate commerce, Congress has not given absolute or complete power in regard to the matter to the Interstate Commerce Commission or to any other body, and consequently the commission cannot exert what it has not received. So long as the field of rate-making is unoccupied by Congress it may be occupied by the states, and the rates they make are to be upheld unless they involve confiscation of the property of the carrier.

The essential ideas in this decision were expressed by Justice Hughes, who read it in part in the following sentences, the whole decision itself including more than thirty-five thousand words:

> The Constitution gives Congress an authority at all times adequate to secure the freedom of interstate commercial intercourse from state control and to provide effective regulation of that intercourse as the national interest may demand.
>
> The commerce that is confined within one state and does not affect other states is reserved to the state. This reservation is only of that power which is consistent with the grant to Congress. The authority of Congress extends to every part of interstate commerce and to every instrumentality or agency by which it is carried on; and the full control by Congress over the subjects committed to its regulation is not to be denied or thwarted by the commingling of interstate and intrastate operations.

Even without action by Congress, the commerce clause of the Constitution necessarily excludes the states from direct control of subjects embraced within the clause which are of such a nature, that if regulated at all their regulation should be prescribed by a single authority. There is thus secured the essential immunity of interstate intercourse from the imposition by the states of direct burdens and restraints.

But there remains to the states the exercise of the power appropriate to their territorial jurisdiction in making suitable provision for local needs. The state may provide local improvements, create and regulate local facilities, and adopt protective measures of a reasonable character in the interest of the health, safety, morals, and welfare of its people, although interstate commerce may incidentally or indirectly be involved. Where matters falling within the state power, as above described, are also by reason of their relation to interstate commerce within the reach of the federal power, Congress must be the judge of the necessity of federal action, and until Congress acts the states may act. The paramount authority of Congress enables it to intervene at its discretion for the complete and effective government of that which has been committed to its care, and for this purpose and to this extent, in response to a conviction of national need to displace local laws by substituting laws of its own.

State regulation of railroad rates began with railroad transportation. The authority of the state to prescribe what shall be reasonable charges for intrastate transportation is statewide, unless it be limited by the exertion of the constitutional power of Congress with respect to interstate commerce and its instruments. As a power appropriate to the territorial jurisdiction of the state it is not confined to a part of the state, but extends throughout the states to its cities adjacent to its boundaries, as well as to those in the interior of the state. If this authority of the state be restricted, it must be by virtue of the actual exercise of federal control and not by reason merely of a dormant federal power, that is, one which has not been exerted.

The Court goes on to discuss the constitutional question thus developed considerably more at length and finally deals with the problems still left for Congress in the following manner:

The interblending of operations in the conduct of interstate and local business by interstate carriers, and the exigencies that are said to arise with respect to interstate rates by reason of their relation to intrastate rates are considerations for the practical judgment of Congress. If the situation has become such that adequate regulation of interstate rates cannot be maintained without imposing requirements with respect to such interstate rates of interstate carriers as substantially affect interstate rates, it is for Congress to determine within the limits of its constitutional authority over interstate commerce and its instruments, the measure of the regulation it should supply.

In dealing with the specific cases before it, the Supreme Court in its opinion of Monday, June 9, held that in the cases of the Northern Pacific

and Great Northern companies, which were the chief contestants of the Minnesota state rates, the examination of estimates of value and methods of apportionment showed that the proof is insufficient to justify a finding that the rates were confiscatory so that the decrees of the lower courts had to be reversed. On the other hand, the rates affecting the Minneapolis & St. Louis Railroad Co. were held to be confiscatory, the decree of the lower court in favor of the company therefore being sustained on the ground that the rates fixed by state authority were insufficient to yield the concern an adequate return upon its investment.

On Monday, June 16, the remainder of the state rate cases were dealt with by the Supreme Court, and opinions shaped along substantially the lines just indicated were handed down. In all, eighteen cases were disposed of. In eight of the suits it had been stipulated in the court below that the parties should abide by the decision reached in the other cases. Of the remaining ten, two were consolidated into one for purposes of trial, leaving nine suits submitted to the Supreme Court. Of these nine suits six resulted in action by the court sustaining the rates, these being the cases of the Chicago, Burlington & Quincy, the Atchison, Topeka & Santa Fe, the Kansas City Southern, the Missouri, Kansas & Texas, the Chicago, Rock Island & Pacific, and the St. Louis & San Francisco. The decrees in the case of the other three companies were reversed and the cases were remanded, the court holding the rates to be confiscatory as affecting the St. Louis & Hannibal, the Kansas City, Clinton & Springfield, and the Chicago Great Western.

Immediately upon the handing-down of these decisions many complaints were expressed both by transportation companies and by large shippers on the ground that the position taken by the court destroyed all uniformity of treatment of the rate question, and must necessarily result in additional legislation designed to occupy the debatable field said by the court thus far to have been left vacant by Congress.

THE ADMINISTRATION BANKING AND CURRENCY BILL

Work has practically been completed in the framing of the administration currency bill designed to furnish the basis for banking reform at this session of Congress. The measure was unofficially made public on June 19 and as thus issued turns out to be framed along the general lines that have been already outlined in these pages. Essentially the bill has been developed upon the plan prepared by Representative Carter Glass of Virginia and his advisers, who have been engaged in drafting the measure for more than a year past. The bill calls for the establish-

ment of not less than twelve local reserve banks, presided over by a single central reserve board called the Federal Reserve Board. Each of these banks is granted the powers of rediscount, purchase of bills, etc., that are ordinarily assigned to banks of rediscount, and each is required to hold a reserve of $33\frac{1}{3}$ per cent gold against outstanding liabilities. The bill contains a peculiar provision with reference to note issues, in that it authorizes an issue of $500,000,000 of Treasury notes to be put out upon the request of the reserve banks, which are supposed to make application to the Federal Reserve Board for these issues. Additional notes are to be issued in proportion as national bank notes are retired from circulation. Whenever the application is thus made by a reserve bank for Treasury notes, the Reserve Board is bound to issue such notes, provided that the reserve bank is able to offer as collateral security very short-time prime commercial paper of classes specified in the measure itself with considerable detail. A reserve of $33\frac{1}{3}$ per cent of gold must be carried to protect the notes as in the case of other deposit liabilities. These notes are redeemable at any federal reserve bank whether originally paid out by that bank or not. The peculiar and characteristic feature of the Glass bill is seen in the powers that it bestows upon the Federal Reserve Board. These powers are extensive and inclusive and are as follows:

a) To examine at its discretion the accounts and books of each federal reserve bank and to require such statements and reports as it deems necessary.

b) To require or on application to permit a federal reserve bank to rediscount the paper of any other federal reserve bank.

c) To establish each week, or as much oftener as required, a rate of discount which shall be mandatory upon each federal reserve bank and for each class of paper: *provided*, that said rate of discount need not be uniform for all federal reserve banks, but shall be made with a view to accommodating the commerce of the country and promoting a stable price level.

d) To suspend for a period not exceeding thirty days (and to renew such suspension for periods not to exceed fifteen days) any and every reserve requirement specified in this act.

e) To supervise and regulate the issue of Treasury notes by federal reserve banks.

f) To add to the number of cities classified as reserve and central reserve cities under existing law in which national banking associations are subject to the reserve requirements set forth in section 21 of this

act; or to reclassify existing reserve and central reserve cities and to designate the banks therein situated as country banks at its discretion.

g) To require the removal of officials of federal reserve banks for incompetency, dereliction of duty, fraud, or deceit.

h) To require the writing-off of doubtful or worthless assets upon the books and balance sheets of federal reserve banks.

i) To suspend the further operations of any federal reserve bank and appoint a receiver therefor.

j) To perform the duties, functions, or services specified or implied in detail throughout this act.

The bill provides for refunding the government bonds issued at 2 per cent as security for circulation behind national bank notes, at the rate of 5 per cent of their total volume each year, thus giving twenty years for the whole refunding scheme to be carried through. If any bonds remain unfunded at the close of that period they are to be compulsorily replaced by 3 per cent bonds, the refunding process for the first twenty years being voluntary on the part of the banks which are holders of the bonds.

On the whole the Glass bill is essentially a plan for centralized banking and centralized control of the banking process through governmental agencies vested with the power for overseeing and directing the operations involved in the banking system provided for under the bill. Criticism against it will probably come from those who believe that there should have been a single central bank with a large capital and with branches; and from those who dislike the changes in the reserve machinery of existing national banking which are provided for in this act. Others will complain of details. The refunding plan is not likely to be very acceptable to those bankers who want to be guaranteed the redemption of their 2 per cent bonds at par.

A good deal of interest undoubtedly centers around the bill from a comparative standpoint. Many persons are asserting that it is a modified copy of the Aldrich bill. While of course the principles of banking that must be availed of in any measure are permanent and unchangeable, there are fundamental differences between the Glass and Aldrich bills. The chief of these are as follows:

1. The Aldrich bill established a single central reserve association with fifteen branches; the Glass bill establishes twelve local reserve associations with a central government board overseeing them.

2. The Aldrich bill provided an elaborate mechanism for the government of the local branches which was such as to insure private control

and probably control by the larger banks. The Glass bill provides for complete government control of the central board which exercises the fundamental banking powers, while it gives the government a direct voice in the management of the local reserve associations through which the actual banking routine is carried on.

3. The Aldrich bill compelled the central reserve association to hold the present 2 per cent bonds, thereby tying up the funds of the concern and preventing it from doing any active business except in emergency. The Glass bill provides a straight refunding scheme which in the long run will cost no more and which provides for the shifting of the two's into three's without troubling the banking machinery of the country.

4. The Aldrich bill left the present system of redepositing bank reserves untouched. The Glass bill abolishes this system, admitted as it is to be obsolete and injurious, and makes the change gradually without inflicting any hardship upon the banks.

5. The Aldrich bill provided a note currency available for use in bank reserves, and thus susceptible of being used as a means of inflation. The Glass bill calls for an issue of Treasury notes which, however, are not put out except as business needs require them, such business needs being made manifest through the banks, and it refuses to make these notes either legal tender or available for use in reserves.

6. The Aldrich bill was positively opposed to the performance of any open market transactions by the reserve bank. This threw the sole control of rates of interest into the hands of the banks who were the sole customers of the reserve institution. The Glass bill permits certain restricted open market operations on the principles followed by the Bank of England, for the purpose of making the rediscount rate effective in the open market.

7. The Aldrich bill provided for elaborate and complex taxes which were likely to make the working of the reserve bank costly to the borrower. The Glass bill abolishes all taxes and simplifies the machinery, while it safeguards the government interests by taking all surplus earnings.

8. The Aldrich bill provided for special banks to do special business and to have branches abroad. The Glass bill allows this business to be done by branches of national banking associations.

9. The Aldrich bill granted a charter for a fixed period. The Glass bill places the reserve banks under the same control as national banks.

10. The Aldrich bill throughout failed to provide safeguards for use by the public authorities. The Glass bill subjects every step in the banking process to control whenever necessary.